

## Message Text

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ACTION ARA-10

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FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 5239

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PASS COMMERCE, EXIM BANK

E. O. 11652: GDS

TAGS: EFIN, ETRD, EGEN, AR

SUBJECT: NEW ECONOMIC MEASURES

REF: BUENOS AIRES 2210, BUENOS AIRES 2286

BEGIN UNCLASSIFIED

1. EXCHANGE AND TRADE. EXCHANGE MARKET: SINCE OPENING  
APRIL 5, EXCHANGE MARKETS STABLE. OFFICIAL RATE CONTINUES  
AT 140 PESOS PER DOLLAR. FREE MARKET RATE FLUCTUATING IN  
RANGE 250/260 PESOS PER DOLLAR. IMPORTS: CENTRAL BANK  
COMMUNIQUE 81 ESTABLISHES NEW REGIME FOR IMPORTS. IMPORTS  
IN ANNEX A (FUELS AND NEWSPRINT) TO BE MARKETED AT OFFICIAL  
140 PESOS PER DOLLAR RATE. PRODUCTS IN LIST B (CAPITAL AND  
CONSUMER GOODS) TO BE MARKETED AT MIXED RATE, 65 PERCENT  
OFFICIAL AND 35 PERCENT FREE (EQUIVALENT 185.5 PESOS PER  
DOLLAR). PRODUCTS NOT INCLUDED IN LIST A OR B (RAW MATERIALS  
AND OTHER ESSENTIAL IMPORTS) TO BE MARKETED AT MIXED RATE  
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OF 83 PERCENT OF OFFICIAL MARKET AND 17 PERCENT AT FREE RATE

EQUIVALENT TO 162.1 PESOS PER DOLLAR). CHANGES REPRESENT MODERATE DEVALUATION OF IMPORT RATE AS ALL IMPORT FOREIGN EXCHANGE OPERATIONS HANDLED AT OFFICIAL 140 RATE UNDER PREVIOUS REGIME. EXPORTS: CENTRAL BANK COMMUNIQUE 82 ALSO MODIFIES EXPORT REGIME. MIXED RATE PREVIOUSLY APPLYING TO ALL EXPORTS (I.E. 97 PERCENT AT OFFICIAL RATE AND 3 PERCENT AT FREE RATE) HAS NOW BEEN CHANGED TO 65 PERCENT AT OFFICIAL RATE AND 35 PERCENT AT FREE RATE. IN ADDITION, EXPORT TAXES REDUCED AND SUBSIDIES INCREASED VIA CENTRAL BANK CIRCULAR 629. TAXES NOW RANGE FROM ZERO TO 50 PERCENT, (PREVIOUSLY ZERO TO 56 PERCENT) AND SUBSIDIES NOW RANGE FROM ZERO TO 25 PERCENT (PREVIOUSLY ZERO TO 12 PERCENT). THUS EFFECTIVE EXCHANGE RATE, INCLUDING TAXES AND SUBSIDIES, NOW RUNS FROM LOW OF 93 PESOS PER DOLLAR FOR TRADITIONAL EXPORTS TO HIGH OF 232 PESOS PER DOLLAR FOR INDUSTRIAL ITEMS. FREIGHT AND INSURANCE: CENTRAL BANK COMMUNIQUE 81 ALSO ESTABLISHES THAT FREIGHT AND INSURANCE EXPENSES CONTAINED ANNEX C OF RESOLUTION SHIFTED FROM OFFICIAL RATE TO MIXED RATE OF 65 PERCENT AT OFFICIAL MARKET AND 35 PERCENT AT FREE MARKET. FINANCIAL LOANS AND RELATED INTEREST WILL CONTINUE TO OPERATE ENTIRELY THROUGH OFFICIAL EXCHANGE RATE. TOURISM AND OTHER FINANCIAL OPERATIONS: I.E. CAPITAL REPATRIATION, DIVIDENDS, ROYALTIES, ETC. ALSO WILL OPERATE THROUGH FREE MARKET RATE.

## 2. DOMESTIC PRICE POLICY

DECREE 29 REVOKES ALL PRICE CONTROLS, MAXIMUM PRICES, MAXIMUM PROFIT MARGINS, ETC. ONLY EXCEPTION IS PHARMACEUTICAL AND MEDICAL ITEMS WHICH WILL BE SUBJECT TO SPECIAL REGIME STILL UNDER REVIEW. ECONOMY MINISTRY RESOLUTION 4, IMPLEMENTED LATER, REQUIRES 500 LEADING MANUFACTURERS, INCLUDED IN ANNEXED LIST, TO PRESENT EXTENSIVE COST DATA WHEN PRICES MODIFIED FOR COMMERCE SECRETARY'S GENERAL INFORMATION. PUBLIC SECTOR PRICE INCREASES. RESOLUTION 3 INCREASES GASOLINE AND OTHER FUEL PRICES APPROXIMATELY 30 PERCENT. PREMIUM GASOLINE RAISED FROM 31 TO 40 PESOS PER LITER (\$1.08 PER GALLON AT OFFICIAL RATE) AND REGULAR GASOLINE FROM 28 TO 36 LIMITED OFFICIAL USE

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PESOS PER LITER (OU CENTS PER GALLON AT OFFICIAL RATE). GAS/OIL AND KEROSENE GO FROM 16 TO 20 PESOS PER LITER. GAS AND ELECTRIC BILLS INCREASED 9 AND 10 PERCENT RESPECTIVELY. TAXI AND BUS FARES BOTH INCREASED TO OFFSET FUEL PRICE INCREASES. TRAIN SERVICE INCREASED 10 PERCENT AND DOMESTIC AIR FARES 25 PERCENT.

## 3. TAX MODIFICATIONS. SEVERAL MODIFICATIONS IN TAX

REGIME IMPLEMENTED AS FOLLOWS.

--- ALL TAXES AND SOCIAL SECURITY CONTRIBUTIONS INDEXED ACCORDING TO WHOLESALE PRICE INDEX TO ELIMINATE INCENTIVE TO DELAY PAYMENT.

--- CAPITAL TAX ON PERSONAL NET WORTH REPLACES INHERITANCE TAX FOR PERIOD 10 YEARS, STARTING 1975, PAYABLE BY INDIVIDUALS WHOSE NET WORTH EXCEEDS \$5 MILLION PESOS AT YEAR END. RATE SCALE RUNS FROM 0.5 PERCENT TO 1.5 PERCENT (THIS CHANGE ESSENTIALLY RESTORES SYSTEM IN EFFECT UNTIL 1973.)

--- CAPITAL GAINS TAX IMPLEMENTED ON PROFITS OBTAINED FROM SALE OF REAL ESTATE. GENERAL RATE 15 PERCENT APPLICABLE TO DIFFERENCE BETWEEN SALES PRICE AND COMPUTABLE COST (I.E. ADJUSTED ORIGINAL COST). REAL ESTATE PURCHASES AND SALES FOR PERSONAL USE EXEMPTED FROM TAX.

--- INCOME TAX LAW MODIFIED. GENERAL 22 PERCENT RATE APPLICABLE TO CORPORATE PROFITS HAS BEEN INCREASED TO 33 PERCENT, BUT 29.5 PERCENT TAX LEVIED ON NONDISTRIBUTED DIVIDENDS HAS BEEN ELIMINATED (TO ENCOURAGE CAPITALIZATION). PARTNERSHIPS WHICH PREVIOUSLY EXEMPT FROM TAX NOW INCLUDED.

--- GENERAL TAX ON CORPORATION CAPITAL NOW 1.5 PERCENT. BUSINESSES WITH CAPITAL LESS THAN \$5 MILLION ARE EXEMPT.

4. AGRICULTURE: LAW 21-288 ELIMINATES NATIONAL GRAIN BOARD'S MONOPLY FOR CEREALS EXPORTS. NEW AGRICULTURAL GRAIN PRICES ANNOUNCED AS FOLLOWS. BREAD WHEAT FORMERLY \$245 PESOS PER BUSHEL, NOW \$517 PESOS PER BUSHEL; FLINT CORN FORMERLY \$152 PESOS PER BUSHEL, NOW \$234 PESOS PER LIMITED OFFICIAL USE

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BUSHEL; DENT CORN FORMERLY \$138 PESOS PER BUSHEL, NOW \$211 PESOS PER BUSHEL; SEMI-DENT CORN PREVIOUSLY \$146 PESOS, NOW \$224 PESOS; SORGHUM FORMERLY \$131 PESOS, NOW \$185 PESOS, AND SUNFLOWER SEED FORMERLY \$1200 PESOS PER 100 KILOS, NOW \$2000 PESOS PER 100 KILOS. END UNCLASSIFIED.

5. COMMENT: ON THE WHOLE, NEW MEASURES IMPLEMENTED THUS FAR ARE RELATIVELY MODERATE. EFFECTIVE DEVALUATION WAS LESS THAN HAD BEEN GENERALLY ANTICIPATED HERE. MOST FAR REACHING CHANGE UNDOUBTEDLY COMPLETE DECONTROL OF DOMESTIC PRICES. THUS FAR, NO GENERAL PRICE SURGE NOTED AS A RESULT DECONTROL BUT SHARP INCREASES HAVE OCCURRED FOR SEVERAL SPECIFIC ITEMS (EGGS, CHICKEN, WINE, ETC.). OUR PRELIMINARY IMPRESSION IS THAT NEW TAX MEASURES NOT

TOO SIGNIFICANT BUT WE WILL CHECK IMPLICATIONS FURTHER.  
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